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STARK, SPRATT LEAD EFFORTS TO SAVE MEDICARE NEARLY \$1 BILLION

WASHINGTON - U.S. Reps. Pete Stark (D-CA, 13th) and John M. Spratt Jr. (D-SC, 5th) announced that through diligent work, their staffs uncovered errors in payments to HMOs offering Medicare Advantage plans, and the Congressmen requested that the Centers for Medicare and Medicaid Services (CMS) review these overpayments. CMS confirmed their error and advised the Congressmen that it will cut these overpayments, saving Medicare nearly \$1 billion.

The error stems from a complex formula that determines how much funding HMOs and other private plans offering Medicare Advantage policies receive from the government. In addition to the payment formula set in law, the Administration currently pays an even higher amount to HMOs to hold them harmless from payment reductions they would otherwise see from serving healthier than average beneficiaries. A letter from the Members of Congress pointed out these so-called "hold harmless" payments were set too high for 2006 because of the use of outdated data on the health status of Medicare beneficiaries. CMS reported that the error will result in nearly \$1 billion in overpayments in 2006. CMS contends that plan contracts for 2006 are too far along to recoup the overpayments next year. Instead, CMS has announced their intent to recoup these overpayments over four years beginning in 2007.

At this time, legislative options are being pursued to ensure CMS will collect the \$1 billion.

The members agreed, "We're pleased CMS is taking this issue seriously and has pledged to fix their mistake, and we urge the Administration to continue to collaborate with Congress to address these overpayment issues." Stark added, "Now that CMS has recognized these overpayments, we must ensure they are recaptured. Representative Spratt and I intend to work together to ensure CMS collects the \$1 billion Medicare is owed and see that the Administration sticks to its stated schedule for phasing out these extra 'hold harmless' payments."

Despite this appropriate reduction in payments, CMS continues to overpay billions every year to HMOs and other private plans through the Medicare Advantage program. The Medicare Payment Advisory Commission reports that, on average, Medicare is paying private plans more than 107 percent of what it would cost to serve the same beneficiaries in the traditional

fee-for-service. Eliminating this subsidy would save the program \$15.2 billion over five years. Medicare will also spend \$10 billion over the next ten years to entice more plans into the program.

Stark pointed out that “HMOs have a long history of being over-paid for participating in Medicare. I would hope this is the beginning of an effort between Congress and the Administration to rein in these excessive payments.” Representative Spratt added, “It is not yet clear that HMOs can save Medicare money, but this much is clear: they will never save money by being overpaid. The elimination of this overpayment is justified, and calls for more oversight into the way Medicare Advantage plans are paid.”